

**Q1 – Do you agree that the Revised Model presents a better option for taking forward the USM initiative? If no, please provide details.**

We agree the Revised Model presents a better option for taking forward the USM initiative; however, we would like to highlight that the Revised Model will create a new challenge around additional manual corporate action work because of different cut off/ flows. Could we introduce the same corporate action flows across existing account, USS and USI please?

One question we seek clarification on is whether it is a must for physical certificates to be converted to USI/USS? Is the revised USM model open for all types of physical holdings (not just physical certificates)?

**Q2 – Do you have any concerns or comments about the key features of the proposed Revised Model? If yes, please provide details.**

We have the following questions about the key features of the proposed Revised Model:

- Is the Revised Model applicable to Stock Connect shares as well? If so, will HKEx perform pre-trade checking in the HKSCC-Nominees /USS/USI account?
- Is the share registry able to apply restrictions to the USM shares? For example, ear mark shares that is still under lock period. Currently, this is managed by share registrar during the dematerialization process (when they received the demat request, they will check if the certificate is still under lock up period and will reach out to the listing company for their consent before they register the shares in HKSCC Nominee name).
- Under the current model, margin/SL/buy-in happens under the clearance account. Under the Revised Model, do we have to wash the shares through USS account first for security lending? Which party is entitled to the margin shares if a client defaults? For buy-ins, as any movement under the revised model will have to go through the 3 steps process, would we continue to leverage buyin exemption rule for buyin exemption and what are the evidence would be needed for USS/USI buyin cases.

**Q3 – Do you have any concerns or comments about the key features of the USS account? If yes, please provide details.**

We have the following questions about the key features of the USS account:

- It is mentioned in the USM consultation paper that USS only applies to institutional investors (in particular funds). Would you please clarify whether this is term is meant to follow the SFC definition of professional investors – i.e. is it just applicable to institutional professional investors or does it also encompass corporate professional investors and individual professional investors?
- Transfer activities require USS holder to inform both Counterparty and Sponsoring CP and share registry. These extra layers of communication will create inefficiency for transaction settlement.
- Can USS holder trade with the shares in its USS account at share registry or the shares need to be transferred to USS account or HKSCC-NOMS account in HKEx system first?

- Stamp duty arrangement for OTC transaction – It appears that CP sponsor is responsible to pay the stamp for the USS holder and the stamp duty reference need to be provided to share registry in order to process the transfer. However, the current market practice is to arrange the stamp within 2 or 30 business day (depending the domicile of the transferee and transferor) after the execution. Can we please clarify if the stamp payment is required to be paid prior the transfer of shares can be instructed on the future common platform?

**Q4 – Do you have any concerns or comments about the key features of the USI account? If yes, please provide details.**

We have the following questions about the key features of the USI account:

- Transfer between 2 USI holders Are the bought and sold notes prepared by the USI holder and the stamp payment arranged by share registry? Can the USI holder pay its own stamp instead?
- Can the USI holder trade with the shares in its in USI account at share registry or the shares need to be transferred to HKSCC-NOMS first?
- If there is an NCBO transfer on the back of the market execution, can buy-in exemption be still applied?

**Q5 - Do you have any concerns or comments about our proposal that USS accounts be limited to institutional investors, and USI accounts be available to all investors, including institutional and retail investors? If yes, please provide details.**

A retail investor may have appetite to open an ID account under its own legal name but may not be able to deal with cumbersome operational procedures for account management. Therefore, it would be better to limit USI accounts to retail investors only and USS accounts should be open to all investor types including retail investors.

**Q6 – Do you agree with our expectation that institutional investors that open a USS account are unlikely to open or need to open a USI account as well? If no, please provide details.**

Yes, we agree.

**Q7 – Do you anticipate any difficulties or limitations in opening and managing USS accounts for retail investors? If yes, please provide details.**

No, we do not anticipate any difficulties or limitations in opening and managing USS accounts for retail investors. However, we would like to seek clarification on what kind of KYC information will be need to be provided to the registry and if the registry will accept existing KYC of prime brokers rather than requesting new/ additional information.

**Q8 – Do you have any concerns if cash entitlements payable in respect of securities held in an institutional investor’s USS account had to be paid to the institutional investor direct, rather than to its sponsoring CP? If yes, please provide details.**

No concern.

**Q9 – Do you have any concerns or comments about our proposal to require registered securities holders to provide a unique identification number to the issuer? If yes, please provide details.**

No concern.

**Q10 - Do you have any concerns or comments about our proposals on consolidating holdings belonging to the same registered securities holders but calculating securities entitlements separately in the case of USS holders with multiple USS accounts? If yes, please provide details.**

No concern as long as share registry is able to provide a mechanism to allow nominees to reconcile back the records.

**Q11 – Do you have any concerns or comments about the proposals for establishing a Common Platform across all share registrars? If yes, please provide details.**

No concern.

**Q12 – Do you have any concerns or comments about the proposed process flows for IPO applications in respect of securities that are to be credited to a USI account? If yes, please provide details.**

We have the following questions/comments in regards to the overall HKPO structure:

- Is this new IPO subscription flow going to replace CCASS E-IPO and white e-ipo that share registry is offering today?
- Will this new flow change the HKPO tranche structure we have today? For example, in each IPO we need to open a Public offering account, CCASS EIPO account, non-EIPO refund account and EIPO refund account. The issuer and the joint global coordinators for the deal will need to instruct the nominee bank and receiving bank to the transfer the fund between those accounts.
- Shortening IPO settlement timeline – It is worth highlighting that this flow only covers the logistics for HKPO tranche (public tranche) but not the logistics for international tranche (institutional tranche). International tranche has more work to be completed. It requires additional logistics with HKEx Vetting team and HKSCC in order to obtain the listing approval for the whole deal (Public + institutional tranche). The current IPO settlement timeline (T+4/T+5) is already very tight, hence is not feasible to shorten the timeline.

**Q13 – Do you have any concerns or comments about the proposed process flows for IPO applications in respect of securities that are to be credited to a USS account? If yes, please provide details.**

No concern.

**Q14 - Do you have any concerns or comments about the proposed process flows for effecting transfers to or from HKSCC-NOMS under the Revised Model? If yes, please provide details.**

We have the following questions about the proposed process flows for effecting transfers to or from HKSCC-NOMS under the Revised Model:

- For transfer between 2 CP under HKSCC-NOMS account, can we do FOP transfer via SI in CCASS? Or with HKEx system go live, would we need to do the transfer in HKEx System instead? If the latter, it will be inefficient for market settlement and stock borrow loan activities.
- Can we arrange stock borrow loan transactions between HKSCC-NOMS account and USS account?
- Does the USS/USI holder need to transfer their shares to a broker/custodian before they can trade in the SEHK? And does the broker/custodian need to transfer the shares from their CP account at HKEx System to CCASS for settlement?
- If we expect the trade settlement between USS account and HKSCC-NOMS to be take place in HKEx system then we should have DVP as one of the payment method in order to avoid extra cost and burden for the paying party. Also, does HKEx system has an automated solution for transfer instruction like SI files upload function available in CCASS today?
- How much is the stamp duty for transfer share from USI/USS to HKSCC Noms? The current charge is HKD\$5 per standard form of transfer

**Q15 – Do you have any concerns or comments about the proposed process flows for effecting other transfers under the Revised Model (i.e. between two USI holders, between two USS holders or between a USI and USS holder)? If yes, please provide details.**

No concern but we'd like to have more clarification around stamp process.

**Q16 – Do you have any concerns or comments about our proposal to offer off-exchange trade settlement and transfer services on half-day trading days? If yes, please provide details.**

We have the following questions regarding the proposal to offer off-exchange trade settlement and transfer services on half-day trading days:

- Is off-exchange trade settlement and transfer services on half-day trading days only applicable for transfer between USS and USI account? If HKSCC-NOMS is in scope, it will have potential impact to the funding projections for the CCASS participants.
- When is the cut off time for transfer/trade settlement? Is it the same as HKEx trading cut off time or does it follow the currency cut off time?

**Q17 – Do you have any concerns or comments about the proposed process flows for effecting corporate actions in respect of holdings in a USI account? If yes, please provide details.**

Yes, the Revised Model will create a new challenge around additional manual corporate action work because of different cut off/ flows. Could we introduce the same corporate action flows across existing account, USS and USI please?

**Q18 – Do you have any concerns or comments about the proposed process flows for effecting corporate actions in respect of holdings in a USS account? If yes, please provide details.**

Yes, the Revised Model will create a new challenge around additional manual corporate action work because of different cut off/ flows. Could we introduce the same corporate action flows across existing account, USS and USI please?

**Q19 – Do you have any concerns or comments about including SFC-authorized listed funds within the USM initiative at an early stage? In particular, do you perceive any difficulties in doing so? If yes, please provide details.**

No concern, but it would be preferable to limit to HKEX listed securities for initial go-live to allow market to familiarize itself with the revised model before introducing more products.

**Q20 – Do you have any concerns or comments about including rights issues, subscription warrants and depositary receipts within the USM initiative at an early stage? If yes, please provide details.**

No concern, but it would be preferable to limit to HKEX listed securities for initial go-live to allow market to familiarize itself with the revised model before introducing more products.

**Q21 – Do you have any views as to whether the USM initiative should be extended to cover other products, in particular CBBCs and DWs? If yes, please provide details.**

No concern, but it would be preferable to limit to HKEX listed securities for initial go-live to allow market to familiarize itself with the revised model before introducing more products.

**Q22 - Noting the general market consensus that Hong Kong should move to a USM regime, do you agree with the general approach for moving the market to full dematerialization? If no, please provide details.**

Yes, we agree with the general approach but would like to highlight that certificate holders who are not actively trading in the market may be reluctant to move to scripless shares as there will be extra cost for them to withhold the shares with a custodian (i.e. safekeep fee and handling fee for dividend payment), unless the charge for USI account holder is minimal.

**Q23 – Do you have any concerns or comments about our proposals for requiring paperless IPOs only? If yes, please provide details.**

No concerns, but we would like to highlight that for pre-ipo investors who usually hold their shares in certificate form, the listing company will need to inform the pre-ipo investor that they need to have a USI or USS account opened with share registry in order to get the listed shares in HK registry.

**Q24 – Do you have any concerns or comments about our proposal that there should be no option to rematerialize securities that are already in uncertificated form? If yes, please provide details.**

No major concern but we would like to highlight that there might be cases where clients require physical certs to exercise rights like vote.

**Q25 – Do you have any concerns or comments about our proposals for dematerializing securities that are held in the new HKEX System? If yes, please provide details.**

We have the following questions about the proposal for dematerializing securities held in the new HKEX system:

- Are market participants no longer able to safekeep shares in our CCASS account and everything needs to move to HKEx System by the end of day?
- When it comes to settlement (market and SI) - Do the shares need to be transferred from USS/USI to CP account under HKSCC NOMS and broker will need to transfer the shares from CP account under HKSCC NOMS in HKEx system to our CCASS account?
- Where will the IPO share for institutional tranche be deposited to? Currently, shares registrar will deposit the shares to CCASS A/C2.

**Q26 – Do you have any concerns or comments about our proposal to cease the parallel trading arrangement for securities held within the new HKEX System that have already been dematerialized? If yes, please provide details.**

If this means only one stock can be traded and settled at the same time when code change happens, (no parallel trading, no more temp code), this would be a good approach.

**Q27 - Do you have any concerns or comments about our proposals for encouraging issuers and registered securities holders to communicate electronically rather than in paper form? If yes, please provide details.**

No concern.